

# **Tax Realignment Commission**

## **Other Funds Presentation**

**September 10, 2010**

# Fund Accounting

(expenditures in FY08-09)

- General Funds \$5.75B
- Federal Funds \$7.37B
- Other Funds \$7.44B

TOTAL: \$20.56B

SC Personal Income \$145 B (15% of economy)

General Fund Expenditures FY 09-10 \$5.11B

# TRAC Review of Other Funds

## Duties of the Commission

### Section 12-3-10 C (2) (c)

2) ‘... The commission’s report must be a detailed, comprehensive, and careful evaluation of the state’s tax system structure. The commission’s report shall consider:

(a) sales and use tax exemptions or limitations to be retained, modified, or repealed;

(b) the assessment of state and local taxes levied and other provisions affecting state and local revenue to fund the operation and responsibilities of state and local government, respectively; and

**(c) any fee, fine, license, forfeiture, or Other Funds.**

# Question

- Should the General Assembly develop a more systematic approach to the oversight of Other Funds?
  - FY 2010-11 Proviso 70.27 creates the joint Other Funds Oversight Committee to review other funds in this State and recommend the appropriate policy for the receipt, appropriation, expenditure, and reporting of other funds.

What are the limiting factors?

Information (less so) & Time (more so).

# Major Point

- These Fund Sources are interrelated.
- General Fund revenue downturns force agencies (& interest groups) to seek fees.
- Federal program expansions produce pressure to create match funding.
- Other fund availability changes strategies of agencies (& interest groups) in seeking General Funds.

# General Funds

- General Funds have the least “strings” attached to their use. They are underwritten by the state’s income tax (individual & corporate), the general sales (4%) tax & excise taxes (beer, liquor). In theory, all citizens pay and all receive some type of benefit.

# General Fund Revenue Sources

## by Major Category

### Fiscal Years 1994-95 and 2009-10

Description	Amounts		Difference	Avg Annual % Change
	1994-95	2009-10		
Tax Revenues:				
Individual Income	1,655,953,953	2,170,909,624	514,955,671	1.8%
Sales and Use	1,442,466,320	2,190,976,127	748,509,807	2.8%
Corporate Income	232,272,412	109,557,160	(122,715,252)	-4.9%
Other Taxes	494,883,172	543,713,578	48,830,406	0.6%
<b>Total Tax Revenues</b>	<b>3,825,575,857</b>	<b>5,015,156,489</b>	<b>1,189,580,632</b>	<b>1.8%</b>
Motor Vehicle Licenses	100,425,868	12,362,258	(88,063,610)	-13.0%
Earned on Investments	61,504,170	41,706,507	(19,797,663)	-2.6%
Departmental Revenue	51,147,846	63,752,920	12,605,074	1.5%
Nonrecurring Revenue	23,426,672	63,778,443	40,351,771	6.9%
Other Revenues	171,459,447	45,139,158	(126,320,289)	-8.5%
<b>Total Revenues</b>	<b>4,233,539,860</b>	<b>5,241,895,775</b>	<b>1,008,355,915</b>	<b>1.4%</b>

**NOTE:** 83.2% of all General Fund revenues in FY 2009-10 came from the Individual Income Tax and the Sales and Use Tax.

Source: Comptroller General's Year End Reports

**Total Personal Income SC = 5%**

**Population SC = 1.4%**

# **A Snapshot of General Funds**

## **Fiscal Year 2008-09**

The General Fund recurring base appropriation was \$6,735,714,190

## **Fiscal Year 2010-11**

The General Fund recurring base appropriation is \$5,080,373,895



# **Budgetary General Fund Shortfalls**

## **FY 2007-08 = \$250 million**

Capital Reserve Fund \$124m, Agency Lapsed Funds \$34m, Transfer from General Reserve Fund \$92m used to eliminate deficit.

## **FY 2008-09 = \$1.314 billion**

Capital Reserve Fund \$133m, Agency Reductions \$974m, Transfer balance of General Reserve Fund \$108m. Remaining operating deficit of \$98 million carried forward to FY 2009-10.

## **FY 2009-10 = \$350 m + 98 m = 448 million**

Capital Reserve Fund \$128m and Agency Reductions of \$438m for total reductions of \$566 million. \$47 million used to replenish the General Reserve Fund leaving a budgetary surplus of \$71 million.

# Federal Funds

- Federal Funds are usually categorical programs by the Federal Government requiring a funding match by State Government.
- Generally speaking, there are regulations on the use of these funds, and non-compliance can mean penalties.
- Major programs are Medicaid, Transportation & Research.

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government} + \text{Net Exports}$$

**A Keynesian approach Macroeconomic Policy**

**President Kennedy's Revenue Act of '64  
(marginal rate from 91% to 70% above \$400K)**

**President Bush's \$600 Tax Rebate '08**

**President Obama's ARRA of '09**

# **H.R.1 of 2009**

## **American Recovery and Reinvestment Act of 2009**

**\$787.242 Billion or about \$2600 per capita**

### **South Carolina's Portion of Stimulus Funds**

Total	\$7.86 Billion
Tax Cuts	\$2.86 Billion
Total Spending in SC	\$5 Billion*

\*(includes Federal spending on Federal installations)

### **Of the \$5 Billion spent in SC:**

\$3.4 Billion will be received by cognizant State agencies through the state budget.  
(The \$3.4 billion includes allocations received by state agencies and subsequently distributed to local governments, non-profits, etc)

# **H.R.1 of 2009**

## **American Recovery and Reinvestment Act of 2009**

<b>ESTIMATED ALLOCATIONS BY MAJOR CATEGORY:</b>		Percentage
BUDGET STABILIZATION FUND	\$ 694,060,272	21%
MEDICAID	\$ 876,040,898	26%
TRANSPORTATION	\$ 504,200,000	15%
WATER AND SEWER	\$ 59,755,697	2%
ENERGY	\$ 111,700,000	3%
HEALTH AND HUMAN SERVICES	\$ 441,842,913	13%
HOUSING	\$ 77,600,000	2%
EDUCATION	\$ 406,064,498	12%
STATE AND LOCAL LAW ENFORCEMENT	\$ 42,484,716	1%
WORKFORCE/EMPLOYMENT SERVICES	\$ 168,620,882	5%
<b>TOTAL ESTIMATED SC ALLOCATIONS</b>	<b>\$3,382,369,876</b>	<b>100%</b>

# H.R.1 of 2009

## American Recovery and Reinvestment Act of 2009

### BUDGET STABILIZATION FUND

#### Distribution Requirements:

82% must be allocated to K-12 Higher Education and  
18% may be allocated for other government purposes.

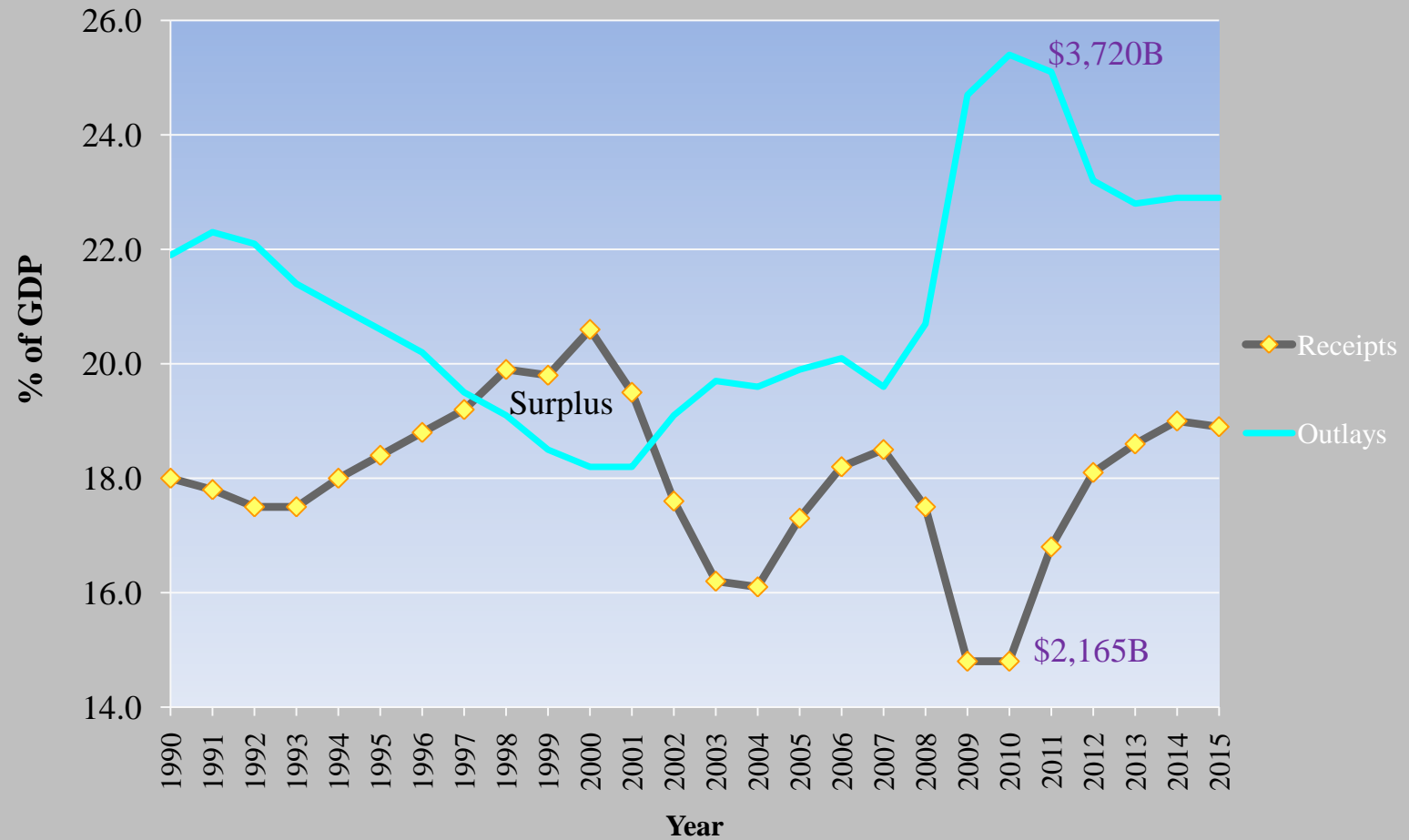
<b>FY 2010-11 Allocations</b>	<b>Funding</b>	<b>Percentage</b>
State Department of Education	\$174,430,646	50%
Colleges and Universities	\$110,657,660	32%
Correctional & Judicial	\$ 53,998,008	16%
Other Government Services	\$ 6,467,847	2%
<b>TOTAL FY 2010-11</b>	<b>\$345,554,161</b>	<b>100%</b>

# **An Extension of Stimulus Funding**

**HR1586 passed 8/10/10**

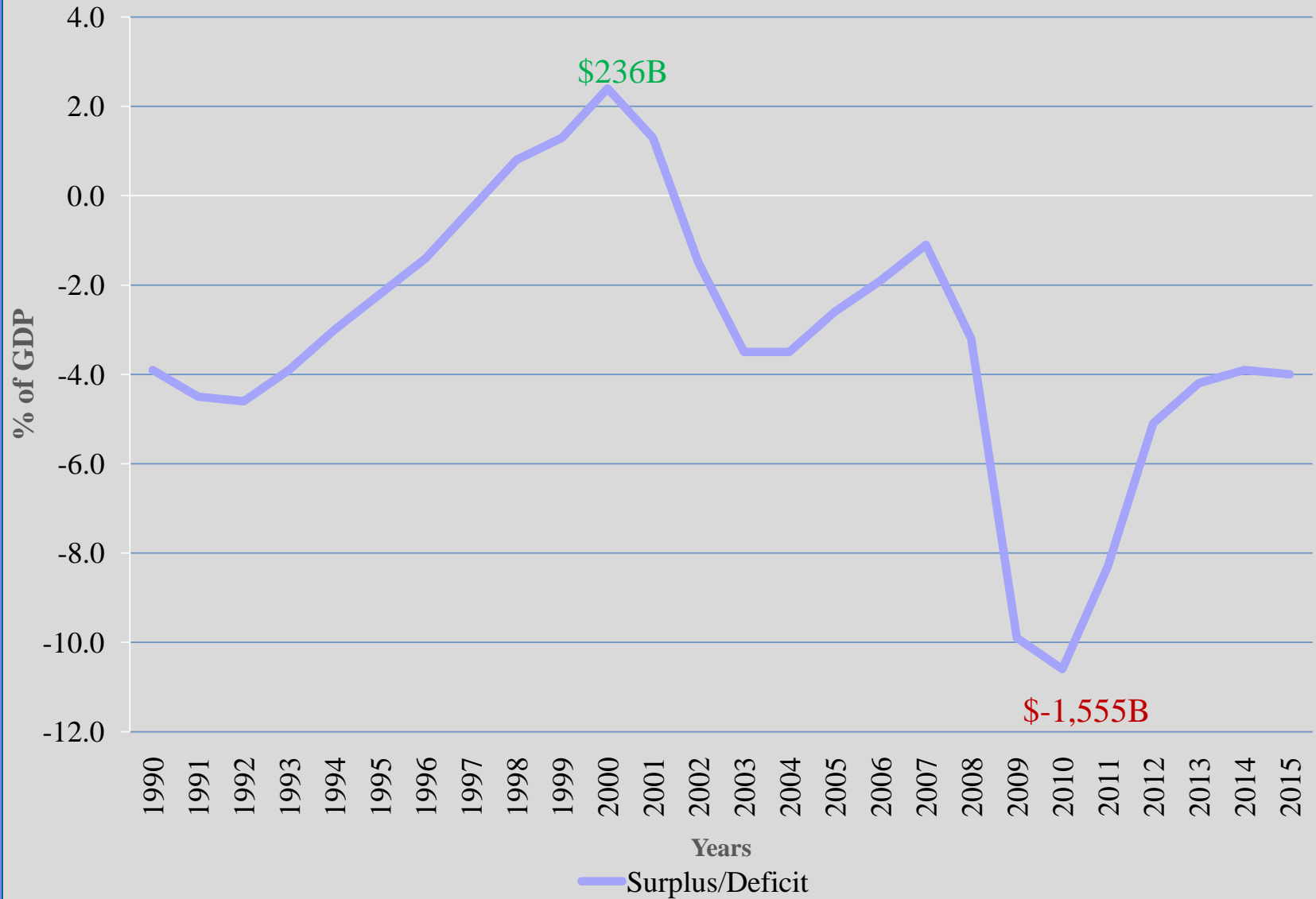
**BUT, this will likely be the last  
large federal stimulus for some  
time, because ...**

# Federal Receipts and Outlays % of GDP

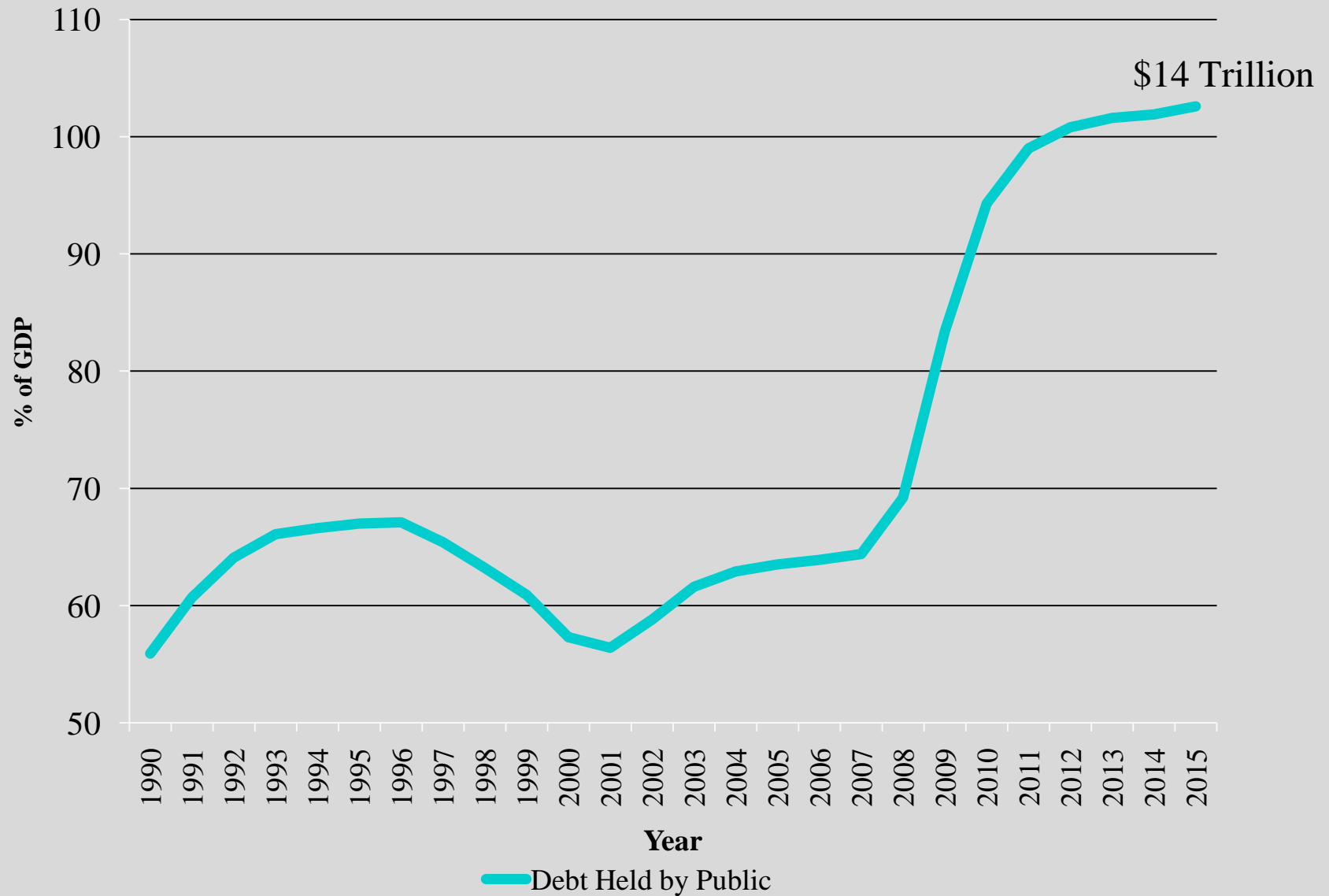




# Federal Surplus/Deficit



# Federal Debt Held by Public



# Does all this matter – No & Yes

## Debt as % of GDP CIA Factbook '09

- Japan 189.3%
- Italy 115.2%
- Greece 113.4%
- Canada 75.4%
- Germany 72.1%
- United Kingdom 68.1%
- Mexico 37.7%
- Ethiopia 31.8%
- China 16.9%
- Kuwait 8.1%
- Libya 3.9%

## GDP CIA Factbook (Purchasing Power Parity)

- US \$14.2T
- China \$8.8T
- Japan \$4.1T
- India \$3.5T
- Germany \$2.8T
- UK \$2.1T
- Russia \$2.1T
- France \$2.1T
- Brazil \$2.9T
- Italy \$1.8T
- Mexico \$1.5T

Note : US Federal DEFICIT ≈ Mexico GDP

# Unusual Circumstances Over the Past Two Years

- General Assembly returns October 20-24, 2008 to pass Rescission Bill in 5 days (-\$488M, General Funds)
- HR1 American Recovery & Reinvestment Act, Budget Stabilization Fund (Supreme Court Order of 6/4/09, Federal Funds)
- Judicial Fees - H.3161 Raised over \$20 million for courts by increasing filing fees and motion fees. The bill was vetoed. The veto was sustained 58 to 51 (5/13/10, Other Funds).

# Other Funds

- Other Funds can be defined as “earmarked” or “restricted.”
- Earmarked means that the interest from the fund accrues to the General Fund.
- Restricted means that the interest on the fund accrues to that specific fund.
- In our accounting system, when an appropriation cannot be classified as General or Federal, it is Other Funds.

# Other Funds

- In theory, there is a relationship between the cost borne by the individual and the benefit accrued by the individual using the government service.
- In this transaction, externalities (public goods) are produced that benefit the state as a whole.

# Role of the General Assembly

The General Assembly sets all the parameters of the process & holds the “purse strings”

- How revenues are collected and deposited.
- How much is spent.
- What funds are spent on.
- Transfers of funds.
- Lapse and carry-forward of funds.

# Role of the Executive Branch

- Implementation to cause an action based on the parameters set by the Legislative Branch.



# Interaction of the Legislative & Executive Branches in Budgeting

- Example of Architecture & Engineering.

In theory, an architect plans a building and engineers build it. In reality, there is much communication and coordination that ensues for a successful project.

# Our Practice in South Carolina

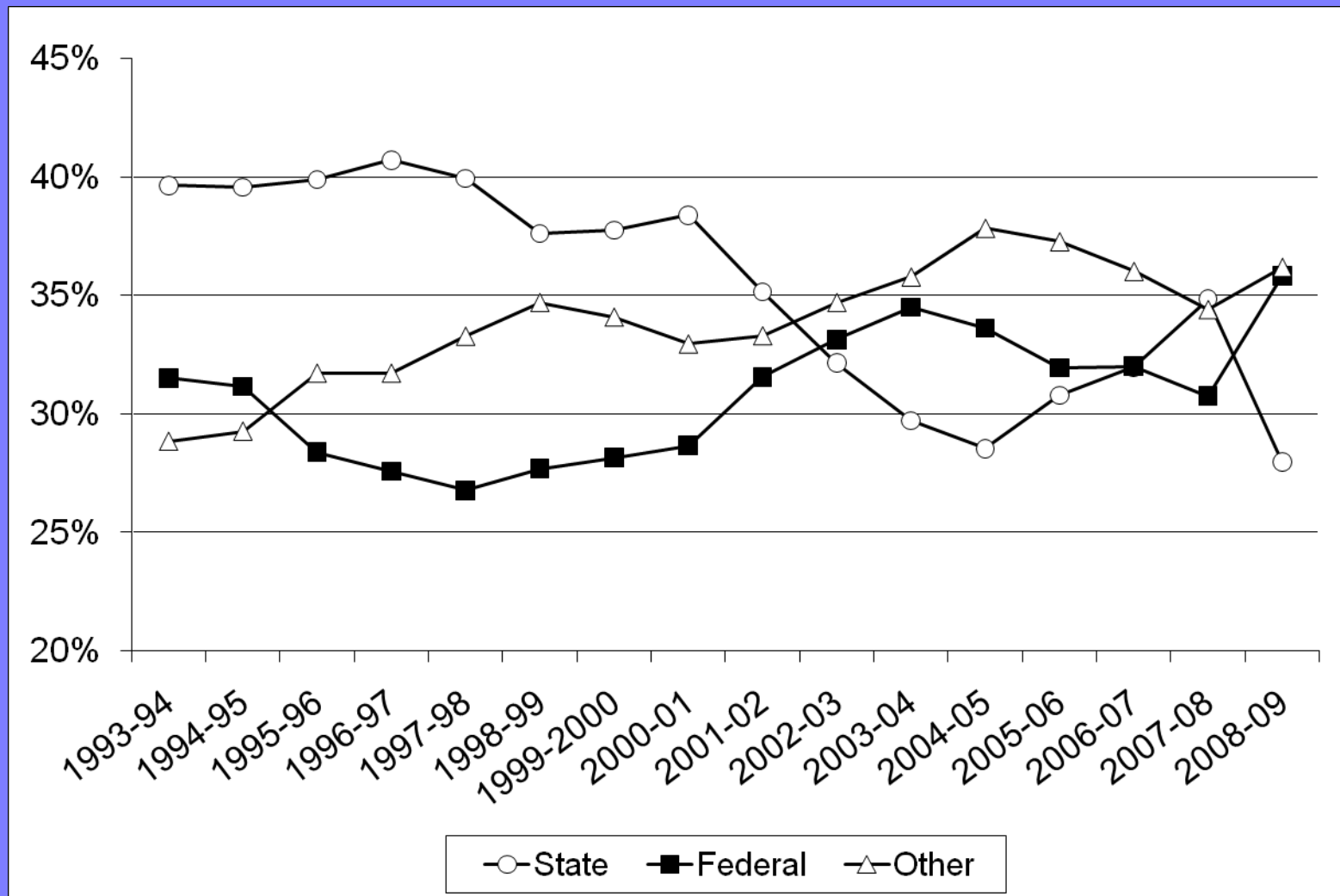
- Great attention given to General Funds at the margin with numerous budget laws (statutes & provisos).
- Passive stance to Federal Funds, depending on trade groups for favorable treatment (more \$ & less rules) and Executive Branch for interpretation.
- Spotty attention to Other Funds, dependent on circumstances.

# **Trend to “Other” Funds**

# Actual Expenditures by Source

FISCAL YEAR	TOTAL FUNDS	STATE FUNDS	% OF TOTAL	FEDERAL FUNDS	% OF TOTAL	OTHER FUNDS	% OF TOTAL
94-95	10,068,437,954	3,984,593,028	39.6%	3,137,398,604	31.2%	2,946,446,322	29.3%
95-96	10,701,489,194	4,269,338,437	39.9%	3,038,128,690	28.4%	3,394,022,067	31.7%
96-97	11,132,910,474	4,532,493,303	40.7%	3,069,458,945	27.6%	3,530,958,226	31.7%
97-98	11,901,470,328	4,754,379,739	39.9%	3,186,338,697	26.8%	3,960,751,892	33.3%
98-99	12,327,902,495	4,637,211,845	37.6%	3,412,616,426	27.7%	4,278,074,224	34.7%
99-00	13,427,781,887	5,070,915,569	37.8%	3,779,733,884	28.1%	4,577,132,434	34.1%
00-01	14,127,206,751	5,422,863,626	38.4%	4,049,509,002	28.7%	4,654,834,123	32.9%
01-02	14,733,464,865	5,178,774,787	35.1%	4,649,159,460	31.6%	4,905,530,618	33.3%
02-03	15,535,498,501	4,994,580,634	32.1%	5,149,533,746	33.1%	5,391,384,121	34.7%
03-04	16,372,861,593	4,864,618,446	29.7%	5,649,309,897	34.5%	5,858,933,250	35.8%
04-05	17,779,734,818	5,073,195,360	28.5%	5,978,775,034	33.6%	6,727,764,424	37.8%
05-06	18,000,324,090	5,540,438,129	30.8%	5,750,316,650	31.9%	6,709,569,311	37.3%
06-07	19,128,107,751	6,117,311,194	32.0%	6,121,576,007	32.0%	6,889,220,550	36.0%
07-08	20,198,788,589	7,037,299,806	34.8%	6,213,173,039	30.8%	6,948,315,744	34.4%
08-09	20,562,961,143	5,754,765,833	28.0%	7,366,021,019	35.8%	7,442,174,291	36.2%
09-10		5,117,133,571					

# Actual Expenditures by Source as a Percent of Total Expenditures



# Top 10 Statewide Federal/Other Fund Revenue Sources

## Fiscal Years 1994-95 and 2008-09

	Description	Amounts		Difference	Avg Annual % Change
		1994-95	2008-09		
	<b><u>Other Funds - Earmarked/Restricted</u></b>				
1	University Fees	428,475,336	1,686,272,589	1,257,797,253	10.3%
2	Sales Tax - EIA	366,650,309	560,649,108	193,998,799	3.1%
3	Medicare and Medicaid Reimbursements	375,563,268	551,002,383	175,439,115	2.8%
4	Gasoline Tax	214,376,940	404,199,993	189,823,053	4.6%
5	Auxiliary Enterprises - Sales and Services	182,278,795	302,058,689	119,779,894	3.7%
6	Lottery Proceeds	-	271,760,556	271,760,556	-
7	Contributions Hospitals/ Medicaid Hospital MIAA	93,746,470	264,049,434	170,302,964	7.7%
8	Medicaid Certified Public Expenditures (incurred expenses are certified for the non-federal share of Medicaid pymts)	-	171,338,900	171,338,900	-
9	Motor Vehicle Licenses	-	137,456,653	137,456,653	-
10	Special Fuel Tax	68,591,714	107,268,986	38,677,272	3.2%
	Totals	1,729,682,832	4,456,057,291	2,726,374,459	7.0%
	<b><u>Federal Funds</u></b>				
1	DHHS Medicaid (MAP) Assistance Payments	1,443,188,191	3,187,995,429	1,744,807,238	5.8%
2	DSS Food Stamp Coupons	301,893,005	898,692,309	596,799,304	8.1%
3	DOT Federal Grants	245,045,118	440,637,655	195,592,537	4.3%
4	DHHS Disproportionate Share	93,746,470	321,371,978	227,625,508	9.2%
5	SDE School Food Services - District	93,806,685	215,219,734	121,413,049	6.1%
6	SDE Chapter I - Low Income	87,104,395	200,598,118	113,493,723	6.1%
7	SDE Title VI Part B Handicapped	29,305,979	176,882,067	147,576,088	13.7%
8	DHHS Medicaid Asst Pymts - Refund Prior Yr Expenditure	-	158,265,636	158,265,636	-
9	DSS Temporary Assistance to Needy Families	-	132,471,307	132,471,307	-
10	MUSC Health Services Research and Development Grants	39,884,506	117,376,164	77,491,658	8.0%
	Totals	2,333,974,349	5,849,510,397	3,515,536,048	6.8%
<b>Note:</b> The listing of the top 10 Other Funds sources represents 60% of the total of \$7,442,174,291.					
The listing of the top 10 Federal Funds sources represents 79% of the total of \$7,366,021,019.					

# Agency Reporting of Other Funds

- Detail Budgets submitted to the Office of State Budget serve as the basis for Appropriation Bill deliberation.

ABD766NP

B04

JUDICIAL DEPARTMENT

2010-2011

REVENUE STATEMENT - RECEIPT DETAIL

SOURCE				COLLECTIONS		
SCH NO.	SUB FUND	REV. OBJECT	TITLE	ACTUAL	ESTIMATED	
				2008-09	2009-10	2010-11
I.						
REVENUE RETAINED AND EXPENDED IN BUDGET OPER.						
B. OTHER FUNDS						
	3035	4507	LAW EXAM FEE	646,885	712,826	650,000
	3035	4850	MISC FEE	2,350		
	3037	7282	SC BAR - LICENSE FEES	543,000	535,000	543,000
	3076	7201	JUDICIAL COMMITMENTS	350,000	440,000	440,000
	3086	3801	REFUND PRIOR YEAR EXPENDITURE	801		
	3086	4722	FAMILY & CIRCUIT COURT FILING FEES	4,213,612	3,930,473	4,351,834
	3086	4811	CIRCUIT COURT FILING FEES	2,127,393	1,982,806	2,195,545
	3086	4813	COURT MOTIONS FEES	2,885,652	2,594,782	2,885,652
	3086	4814	ALIMONY/CHILD SUPPORT FEES	3,149,944	3,149,223	3,149,223
	3086	7702	INSURANCE CLAIM	4,399		
	3352	4542	CASE MANAGEMENT TECHNICAL ASSISTANCE	361,000	431,000	924,000
	3733	3801	REFUND PRIOR YEAR EXPENDITURE	67		
	3733	4720	MAGISTRATE COURT COMPLAINT FILING FEE	1,081,166	925,600	1,033,717
	3733	4721	MAGISTRATE COURT CIVIL FILING FEE	1,582,240	1,532,799	1,691,023
	3733	5759	TRAFFIC EDUC PROG APPLICATION FEE	171		96
	39C7	3801	REFUND PRIOR YEAR EXPENDITURE	508		
	39C7	5750	LAW ENFORCEMENT REVENUE	773,747	1,480,999	1,480,999
	39C7	7201	MISC REVENUE	30		
	39C8	3801	REFUND PRIOR YEAR EXPENDITURE	266		
	39C8	5750	JUDICIAL CIRCUIT STATE SURCHARGE	946,393		
	3958	7859	SALE OF MACHINE & EQUIPMENT	12,831		
TOTAL OTHER FUNDS				18,682,455	17,715,508	19,345,089

# Conclusion

- There has been a trend in spending from General Funds to Other Funds.
- Conditions may accelerate this trend for the foreseeable future.
- Proviso 70.27 - oversight of Other Funds budgets by the General Assembly will be systematic rather than ad hoc.